

U.S. Dollar Liquidity Swaps

Supplementary FAQs

Why has the Federal Reserve re-established temporary U.S. dollar liquidity swap facilities with foreign central banks?

The swap facilities announced today respond to the re-emergence of strains in short term funding markets in Europe. They are designed to improve liquidity conditions in global money markets and to minimize the risk that strains abroad could spread to U.S. markets, by providing foreign central banks with the capacity to deliver U.S. dollar funding to institutions in their jurisdictions.

With which central banks has the Federal Reserve entered into new swap facilities?

The Federal Reserve has established swap arrangements with the Bank of Canada (BOC), the Bank of England (BOE), the European Central Bank (ECB), the Swiss National Bank (SNB), and the Bank of Japan (BOJ).

How will the new swap facilities function?

The swap lines with the ECB, BOE, SNB and BOJ will provide these central banks with the capacity to conduct tenders of U.S. dollars in their local markets at fixed local rates for full allotment, similar to arrangements that had been in place previously. The swap line with the Bank of Canada allows for drawings of up to \$30 billion. The terms, structure, and operational mechanics of these swap agreements closely parallel the arrangements that expired on February 1, 2010. For reference please see the attached link.

http://www.federalreserve.gov/monetarypolicy/bst_swapfaqs.htm

How soon will the new swap facilities be drawn upon?

Drawings on the new facilities will be used to fund U.S. dollar tender operations conducted by foreign central banks. The ECB, BOE and SNB expect to conduct initial operations this week. At present, the Bank of Canada and the Bank of Japan have not yet scheduled operations in US dollars.

For how long are the new swap facilities expected to be operational?

These swap arrangements have been authorized through January 2011. Central banks may request drawings on their swap lines up to the date of expiration.

Is the Federal Reserve exposed to foreign exchange or private bank risk in extending these lines?

No. Dollars provided through the reciprocal currency swaps are provided by the Federal Reserve to foreign central banks, not to the institutions obtaining the funding in these operations. The foreign central bank receiving dollars determines the terms on which it will lend dollars onward to institutions in its jurisdiction, including how the foreign central bank will allocate dollar funds to financial institutions, which institutions are eligible to borrow, and what types of collateral they may borrow against. The terms governing these loans of dollars are in all cases released to the public by the foreign central banks. As the Federal Reserve's contractual relationship is exclusively with the foreign central bank and

not with the institutions obtaining dollar funding in these operations, the Federal Reserve does not assume the credit risk associated with lending to financial institutions based in these foreign jurisdictions. The provision of dollars and receipt of foreign currency, and the receipt of dollars and return of foreign currency at the swap's maturity date, both occur at the same foreign exchange rate so that the Federal Reserve is not exposed to movements in foreign exchange rates.

Will activity under the liquidity swap arrangements be disclosed to the public?

Yes, swap activity will be published weekly. The Federal Reserve also expects to release shortly the underlying legal agreements with foreign central banks.